Ontario

Ministry of Agriculture and Food

Business Considerations for Commercial Apple Growers

April 2001

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Before making business considerations on the financial aspects of apple production you should be aware of the following:

Apples are a regulated commodity in Ontario

Industry Organization

The former **Ontario Apple Marketing Commission** operating under the name of **Apple Growers of Ontario** has been closed out and as such there currently exists no governing authority for the industry.

Plans for restructuring are presently being developed by a voluntary **Apple Growers Steering Committee** administered from the offices of the Ontario Tender Fruit Growers Marketing Board.

Contact:

Ontario Apple Growers Steering Committee
Ontario Tender Fruit Producers Marketing Board
P.O. Box 100
VINELAND STATION, ON

L0R 2E0
Tel. (905) 688-0990 ext. 241
Fax. (905) 688-5915
Cell: (905) 979-8712
Email: apples@vaxxine.com

102-04500/

Visit the following website for access to general information and progress updates:

www.ontarioapples.com

Use assigned codes to enter under the **Members Only** heading.

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Ontario Farm Business Registration (FBR)

Ontario Farm Business Registration: Farm businesses which declare gross farm income of $7,000 or more (for income tax purposes) are required to register annually under the Farm Registration and Farm Organizations Funding Act, 1993. Ontario requires that all farm businesses be registered and have a number. To qualify for Ontario Farm Business Registration you must have $7,000 gross farm sales for the year previous. There is an exemption for religious reasons.

The annual registration fee is $150.00, payable to either the Ontario Federation of Agriculture (OFA) or Christian Farmers Federation of Ontario (CFFO), it is your choice. This fee automatically includes membership in the organization selected. Having a VALID Farm Business Registration number or an approved religious exemption is an eligibility criteria for the Farmland Class Property Tax Rate and Ontario Farm Income Disaster Program. If your property is farmed by tenants, you will not need a Farm Business Registration number. However, your tenant must have a number to qualify your property for the Farmland Class Property Tax. If you do not want to be a member of either farming organization you can ask the organization in writing to get your fee back. You must do so within 90 days of the required registration deadline, NOT 90 days after you send the cheque.

Starting in 2001 there are three options for registering and making the $150 registration payment.

1) Register online at: www.agricorp.com (*External link - disclaimer)*

2) Phone 1-866-327-3678 (visa or mastercard accepted).

3) Mail the completed form and payment cheque to Agricorp to the address below.

FBR program related questions should be directed to Agricorp at the FBR call centre at 1-866-327-3678

Agricorp
P.O. Box 3660, Station Central

Guelph, Ontario N1H 8M4

To contact the accredited General Farm Organizations, write, email or call:

Christian Farmers Federation of Ontario
115 Woolwich Street, 2nd Floor,
GUELPH, ON
N1H 3V1
Tel. (519) 837-1620
Fax. (519) 824-1835
Email: mailto:cffomail@christianfarmers.org
Website: http://www.christianfarmers.org/ (*External link - disclaimer)*

Ontario Federation of Agriculture
40 Eglinton Avenue East, 5th Floor,
TORONTO, ON
M4P 3A2
Tel. (416) 485-3333
Fax. (416) 485-9027
Email: info@ofa.on.ca
Website: http://www.ofa.on.ca (*External link - disclaimer)*

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Income Tax

Income Tax: As of 1995, only incorporated farms can have a business year end other than the calendar year. When establishing an orchard, the initial cost of trees is not considered to be a current expense under the Income Tax Act. However, replacement trees are a current expense and can be claimed as such on income tax. You are encouraged to have your books handled professionally at least until you understand farm tax regulations.

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Retail Sales Tax

Retail Sales Tax (8% PST): Many items bought for farm use are exempt from Retail Sales Tax, commonly called Provincial Sales Tax. Commercial farmers may purchase farm implements, farm equipment, farm machinery, repair parts, and agricultural products exempt from this tax. Be sure to inform the supplier at time of purchase that you are a farmer. You may be required to show a properly completed Purchase Exemption Certificate or sign a waiver exempting the supplier from collecting the tax. There should be little problem getting an exemption if you are dealing with a regular farm supplier. Some other businesses are not set up to handle the exemption at time of purchase.

Farmers are eligible for a rebate for building materials (ie., wood, nails, paint, etc.). The rebate applies to building materials purchased to build or modernize buildings or structures used exclusively for farm purposes. A rebate is now available at time of purchase or can be claimed by filling out the, "General Application for Refund of Ontario Retail Sales Tax".

Only commercial farmers may qualify for the exemption or rebate. A commercial farmer is a person engaged in the business of farming. Hobby farmers do not qualify for the rebate or exemption.

Additional information and copies of the refund application or a Purchase Exemption Certificate may be obtained from your local Retail Sales Tax office listed in the blue pages of your telephone directory.

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Goods and Services Tax

Goods and Services Tax (GST)(7%): As a farmer, you can reclaim a GST rebate monthly, quarterly or annually on your income tax. Monthly is the best as it lines up with bookkeeping cycles and bank statements. You will need a GST number to reclaim tax. Forms for this purpose are available from the Post Office. A GST number is mandatory if yearly sales are over $30,000, and still worth obtaining if yearly farm sales are less than $30,000.

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Farmland Class Property Tax

Farmland Class Property Tax: Under the new tax policy (effective January 1, 1998), farm properties satisfying the eligibility requirements will be identified as Farmland Class and will be taxed at 25% of the municipal residential tax rate. The farm residence and one acre of land surrounding it will continue to be taxed as part of the residential class. To be eligible the property must be assessed as farmland, and the operation must generate over $7,000 of gross farm income in the previous tax year. If the gross farm income is less than $7,000, you may still be eligible for the Farmland Class property tax rate if you satisfy one of the income exemptions. To participate in this program a valid Farm Business Registration number is required unless one of the exemptions applies and is granted. See Ontario Farm Business Registration section.

To have questions answered on Farmland Class Property Tax call: 1-800-469-2285

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Tile Drainage Loan

Tile Drainage Loan: This grant is available from many municipalities. You can get an 8% loan from the government on the cost of tile drainage payable on your property tax amortized over the next 10 years. Funding is limited annually to a first come, first serve basis. You are also limited to the amount of loan available. Application is made before the project starts and the loan is based on the estimate for the job. It is not possible to increase the loan if the job turns out to cost more than the estimate.

Contact your local municipality for details.

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Advance Payments Program

Advanced Payments Program: Administered under the Agricultural Marketing Programs Act with the federal government, an advance on the value of your stored apples is available.

Contact: Agricultural Commodity Corporation (see Commodity Loan Program)

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Commodity Loan Program

Commodity Loan Program: An operating loan can be obtained through the Agricultural Commodity Corporation. At this present time, the security for the loan is the crop and crop insurance. The crop must be insured by AGRICORP.

For more information contact:

Agricultural Commodity Corporation
90 Woodlawn Rd. West
GUELPH, ON
N1H 1B2
Tel. (519) 766-0544 or 1-888-278-8807
Fax. (519) 766-9775
Email: agcorp@agcommcorp.org
Website address: http://www.agcommcorp.org/ (*External link - disclaimer)*

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Crop Insurance

Crop Insurance: This insurance is available as a production guarantee in case of crop failure due to weather perils. Crop Insurance will guarantee a certain level of both fresh and juice production, or optional fresh only, in any year depending on the yield history of the orchard. Coverage levels can be at 70%, 75%, and 80% of historic farm yield. If the actual production is less than the guaranteed production, a claim is paid for the difference. Quality losses due to specific perils are also covered in this plan. Insured perils are: drought, frost, freeze injury, hail, excessive moisture, adverse weather resulting in pollination failure, and excessive wind causing structural damage. Russeting caused by adverse weather (not due to chemical application) is insurable except on Golden Delicious and Russet varieties. Hail and tree insurance are available in addition to basic production insurance. The grower premium is actually half the total base premium, since the Canada-Ontario Crop Insurance Program is publicly funded by the Government of Canada and the Province of Ontario. The grower contributes 50% of the premium and the Federal and Provincial governments pay the rest.

For more details contact:

AgriCorp
P.O. Box 3660, Station Central
GUELPH, ON
N1H 8M4
Tel. (519) 826-3276 or 1-888-247-4999
Email: cac@agricorp.com
Website address: http://www.agricorp.com/ (*External link - disclaimer)*

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Net Income Stabilization Account

Net Income Stabilization Account (NISA): NISA is designed to help producers stabilize their income. Participants deposit money annually into their own individual accounts and receive matching contributions from the federal and participating provincial governments, up to certain limits. Contributions are based on net sales (produce sold minus produce bought) and the specific product produced.

The base contribution rate in Ontario is 4% for producers of grain, oilseeds and eligible livestock. Edible horticulture crop sales, apples included, qualify for a 6% contribution rate. Producers' contributions for these levels are fully matched by government. Producers of edible Horticultural products should also see Self Directed Risk Management (SDRM) section.

Producer contributions, in addition to being matched, earn a bonus of 3% interest (paid by government) on top of the base rate of interest paid by the bank where deposits are held. The interest rates paid by banks vary greatly so comparison shopping or negotiation for other consideration is recommended.

Withdrawals from the account are made only when certain "trigger" formula allows. Withdrawals can be made when net farm income (NFI) falls below the previous five year average or when a participants net income from all sources falls below certain levels. Otherwise participants must voluntarily close their account to make a withdrawal which means they cannot make additional contributions for a two year waiting period. A provision allowing "Interim Withdrawals", withdrawals during a stabilization year have been recently introduced making access to funds much more timely. When withdrawals are made the government contribution and earned interest are taken out first and these amounts are taxable. There are also many implications of participation as a corporation shareholder that should be carefully considered before change of ownership of shares occurs.

Individuals and each member of a partnerships or corporation have a maximum net sales limit of $250,000. Shareholders must hold a minimum of 10% of the common shares of the company and must actively participate in day to day operation of the farm to participate.

The "Account Balance Limit" including participants deposits, government contributions and interest earned, is a ceiling 1 1/2 times average eligible net sales in the most recent five-year period ending with the current year or since the account was opened, if the account has been open for less than five years. A participant would have to have annual eligible net sales of $250,000 to allow the absolute maximum account balance of $375,000. Absolute amount in

your NISA account at any one time can not exceed $375,000. If the account has more than the limit the extra will be paid out to the grower.

NISA has been criticized as the moneys are not liquid and not deducted off personal income tax at time of deposit.

Annual reporting for NISA has been greatly simplified with use of the combined Statement of Farm Activities for NISA and Revenue Canada.

NISA statistics show a high level of participation if horticulture crop producers which will benefit the participants and the industry.

NISA and other farm safety net programs are under review for years following 1999 so be aware that policies could change.

The information above is only a summary. Readers should consult with NISA administration or their personal accountant for detail regarding individual circumstances.

For **NISA information** contact:
NISA Administration
P.O. Box 6100
WINNIPEG, MB
R3C 4N3
Tel. 1-800-665-6472.
Website address: www.agr.ca/nisa (*External link - disclaimer)*

Self Directed Risk Management (SDRM)

The SDRM program operates as a top-up to the Net Income Stabilizatioin Account (NISA). See NISA section for details.

Producers of edible horticulture products for which crop insurance is **not** available **or** who choose not to particpate in crop insurance can contribute up to 9% (3% SDRM plus 6% NISA) of their eligible net sales of these products under an option called Self Directed Risk Management (SDRM). SDRM contrubtions (9%) are "matched" by an 8% contribution from government. Participants can voluntarily contribute an additional 20% of eligible net sales but these amounts are not matched.

For SDRM information contact:

NISA Administration
P.O. Box 6100
600-200 Graham Avenue
Winnipeg, Manitoba R3C 3A4

Phone:

1-800-665-6472 (English)

1-800-665-2776 (Français)
AAFC Web Site: www.agr.ca/progser/nisa_3.phtml (*External link - disclaimer)*

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Ontario Farm Income Disaster Program (OFIDP)

The Ontario Farm Income Disaster Program (OFIDP) is a 3 year Federal - Provincial initiative which is administrated by the Province for Ontario farmers in conjunction with the Canadian Farm Income Program. It is a whole farm program available to any farmer who's gross margin in the claim year falls below 70% of either their previous 3 year average or their olympic 5 year average (dropping highest and lowest years), for reasons beyond their control such as the climbing prices, yield losses and increased expenses.

For complete program information, contact the OFIDP administration at 1-877-838-5144, or visit the OFIDP website at http://www.gov.on.ca/OMAFRA/english/policy/ofidp/index.html

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Grower Organizations

Grower Organizations: These organizations are basically growers helping growers. In every region of this province, an active Fruit and Vegetable Organization exists. This form of mutual support will become more important in the future as government extension services continue to down-size.

The Ontario Fruit & Vegetable Growers Association (OF&VGA) is the parent organization of which all local grower organizations are automatically a part of. When political lobbying is required to facilitate needed change, the local organization presents the issues to the OF&VGA.; Specific problems dealing with fruit and vegetable issues are handled provincially by the OF&VGA or passed on to the Canadian Horticultural Council (CHC) to petition the Federal Government.

Issues of a general farming nature, are usually handled by the Ontario Federation of Agriculture (OFA) or Christian Farmers Federation of Ontario (CCFO) or other provincial wide organizations. As a farmer your Ontario Farm Business Registration automatically makes you a member of the OFA or CCFO. To be a member of a local organization with OF&VGA support, an annual membership fee is required.

For information on the grower organization nearest to you speak to a fellow producer or contact:

Ontario Fruit & Vegetable Growers' Association.
355 Elmira Road North, Unit 103
GUELPH, ON
N1K 1S5
Tel. (519) 763-6160
Fax. (519) 763-6604
Website: http://www.ofvga.org/ (*External link - disclaimer)*

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Incorporation

Incorporation: Due to the complicated procedures involved with incorporating a business, it is in your best interest to seek professional legal assistance. As with any form of business ownership, incorporation has both its advantages and disadvantage.
Some advantages to incorporation include:

- tax deferral opportunities and income splitting,
- estate planning with regards to both taxes and continuity,
- limited liability,
- easily transferable ownership, and
- a separate legal entity.

Some disadvantages to incorporation include:

- heavy regulation,
- expensive to organize,
- charter restrictions,
- extensive record keeping, and
- possible double taxation issues.

Incorporation can be done at any point during a business lifetime.

For more information consult your lawyer.

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Sources of Funding

Sources of Funding:

- **Chartered Banks** - These banks are involved in lending to farmers. They normally loan on equity and cash flow. It is difficult to get a loan on bare land using bare land as collateral. Money is available for operating loans, farm mortgages, machinery loans and others.
- **Credit Unions** - Most Credit Unions do business with farmers, but some may not. Money may be available for operating loans, farm mortgages, machinery financing, personal loans etc.
- **Farm Credit Corporation** (FCC) - The FCC has long term financing available (up to 20 years). FCC is competitive with the banks as to lending rates. They will purchase bare land, where banks may not. They handle mortgage loans and equipment loans mostly, but not operating loans. For more information call: **1-800-387-3232** Website address: www.fcc-sca.ca (*External link - disclaimer)*
- **Merchant Bank** - These are subsidiaries of Chartered Banks and independent

organizations and do lend to farmers. They take an equity position and become a "partner" until the loan is paid off. They take security out of the potential for profit. For more details contact any Chartered Bank.

- **Business Development Bank of Canada (B.D.C.)** - Is similar to the Merchant Banks and does business in the same manner.

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